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PAGE 01 STATE 264143

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ORIGIN COME-00

INFO OCT-01 EUR-12 ISO-00 EB-07 /020 R

DRAFTED BY COM/BEWT/OEWPP/AJSMITH/JMB

APPROVED BY EB/ITP/EWT:JBEMIS

COM/BEWT/OEWPP/AJLENZ

COM/BEWT/OEWCA/HHEISS

STATE/EUR/SOV/JCOLBERT

STATE/EUR/SOV/WEDGAR

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R 262222Z OCT 76

FM SECSTATE WASHDC

TO AMEMBASSY MOSCOW

INFO AMEMBASSY BELGRADE

AMEMBASSY BERLIN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

USMISSION EC BRUSSELS

USMISSION NATO

AMCONSUL LENINGRAD

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

AMEMBASSY WARSAW

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E.O. 11652: N/A

TAGS: ETRD, UR, YU, RO, US

SUBJECT: COMMENTS OF SOVIET ECONOMIST ON POSSIBLE NEW
DEVELOPMENTS IN SOVIET-US ECONOMIC RELATIONS

1. SUMMARY: DURING A RECENT TWO-HOUR MEETING AT THE
DEPARTMENT OF COMMERCE, BUREAU OF EAST-WEST TRADE,
DR. YEVGENIY SHERSHNEV, DEPUTY DIRECTOR OF THE USA/
CANADA INSTITUTE IN MOSCOW, DISCUSSED SOME POSSIBLE
NEW FEATURES IN SOVIET-US ECONOMIC RELATIONS AND IN
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PAGE 02 STATE 264143

SOVIET FOREIGN TRADE IN GENERAL. THESE INCLUDED A

SOVIET-STYLE "JOINT VENTURE" WITH WESTERN FIRMS WHICH WILL BE A CO-PRODUCTION ARRANGEMENT INVOLVING NO WESTERN EQUITY. SEVERAL MODELS FOR SUCH ARRANGEMENTS BETWEEN SOVIET ENTERPRISES AND US FIRMS WILL BE PRESENTED AT A US TRADE AND ECONOMIC COUNCIL MEETING IN MOSCOW IN NOVEMBER. OTHER NEW ASPECTS DISCUSSED WERE SOVIET ADAPTATION OF US MANAGERIAL TECHNIQUES, INCREASED SOVIET EMPHASIS ON "NEW FORMS OF ECONOMIC COOPERATION" SUCH AS COMPENSATION AND BUY-BACK ARRANGEMENTS, AND SOVIET CONSIDERATION OF THE DEVELOPMENT OF SPECIAL EXPORT INDUSTRIES. SHERSHNEV EMPHASIZED THAT THE IMPORTANCE OF AN EXPANSION OF SOVIET EXPORTS AND INCREASED OVERALL QUALITY CONTROL IN MANUFACTURING IS NOW FULLY RECOGNIZED AT TOP LEVELS IN BOTH THE

SOVIET GOVERNMENT AND IN THE PARTY CENTRAL COMMITTEE.
(END SUMMARY).

2. DURING RECENT VISIT TO WASHINGTON TO ATTEND CONFERENCE AT NATIONAL ACADEMY OF SCIENCES, DR. YEVGENIY SHERSHNEV, DEPUTY DIRECTOR AND CHIEF OF ECONOMIC AFFAIRS OF USA AND CANADA INSTITUTE IN MOSCOW, MET WITH OFFICERS OF BUREAU OF EAST-WEST TRADE IN DEPARTMENT OF COMMERCE FOR DISCUSSION OF POSSIBLE NEW TECHNIQUES AND DEVELOPMENTS IN US-SOVIET ECONOMIC RELATIONS. FOLLOWING ARE HIGHLIGHTS.

3. POSSIBLE US-SOVIET "JOINT VENTURES" - WHILE STRESSING THAT THERE CAN NEVER IN ANY WAY BE ANY FORM OF SOVIET-WESTERN "JOINT VENTURES" SUCH AS THOSE WHICH NOW EXIST IN YUGOSLAVIA AND ROMANIA OR ARE CONTEMPLATED IN SOME OTHER EAST EUROPEAN COUNTRIES, SHERSHNEV SAID THAT HIS INSTITUTE HAS NOW COMPLETED CONSIDERABLE WORK ON MODELS FOR "CO-PRODUCTION PROJECTS, BETWEEN WESTERN FIRMS AND SOVIET ENTERPRISES. THERE ARE, OF COURSE, MAJOR STRUCTURAL DIFFERENCES IN THESE PROPOSED ENTITIES WHICH DIFFERENTIATE THEM FROM THE TRADITIONAL EAST-WEST "JOINT VENTURES". IN THE SOVIET MODEL THE WESTERN FIRM HAS NO EQUITY WHATSOEVER. IN EFFECT, THE AGREEMENT WILL BE A CONTRACTUAL ARRANGEMENT SPECIFYING EACH SIDE'S RESPONSIBILITIES IN SUCH AREAS AS MANAGEMENT, QUALITY LIMITED OFFICIAL USE

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PAGE 03 STATE 264143

CONTROL, TECHNOLOGY AND MARKETING. IT WILL ALSO SPECIFY WHAT PROFITS EACH SIDE WILL RECEIVE ON THE BASIS OF ITS RESPECTIVE INPUTS.

4. ACCORDING TO SHERSHNEV, THE INSTITUTE'S MODELS HAVE NOW BEEN PERFECTED TO THE POINT WHERE THEY WILL BE DISCLOSED FOR THE FIRST TIME AT THE FORTHCOMING MEETING OF THE US-USSR TRADE AND ECONOMIC COUNCIL WHICH IS SCHEDULED

TO TAKE PLACE IN MOSCOW LATE IN NOVEMBER. THEY WILL BE CONSIDERED BY A SPECIAL AD HOC COMMITTEE WHICH HAD BEEN ESTABLISHED TO STUDY THEM. THE MODELS PRESENTED WILL INCLUDE SEVERAL DIFFERENT ALTERNATIVES FOR PROFIT SHARING AND JOINT CONTROL. SHERSHNEV SAID THAT THE INSTITUTE'S WORK IN THIS AREA HAS STILL TO RECEIVE FULL APPROVAL FROM GOSPLAN, THE MINISTRY OF FOREIGN TRADE, THE STATE COMMITTEE FOR SCIENCE AND TECHNOLOGY AND OTHER KEY ECONOMIC CONTROL ORGANIZATIONS OF THE SOVIET GOVERNMENT. AND IT MUST ALSO BE REVIEWED FURTHER BY THE APPROPRIATE SECTIONS OF THE CENTRAL COMMITTEE OF THE CPSU. THUS, FURTHER CLEARANCES FROM THESE ORGANIZATIONS WILL BE NECESSARY BEFORE THE FIRST CO-PRODUCTION AGREEMENT IS ACTUALLY LAUNCHED. HE DID NOT ELABORATE ON WHAT SPECIFIC PROJECTS MIGHT BE UNDERTAKEN.

5. SOVIET USE OF US MANAGEMENT TECHNIQUES - IN A DISCUSSION OF USA INSTITUTE DIRECTOR GEORGIY ARBATOV'S ARTICLE IN PLANOVNOYE KHOZYAYSTVO ON THE POSSIBLE USE OF US MANAGEMENT PRACTICES, SHERSHNEV MENTIONED MANAGEMENT SCHEMES WHICH HAVE BEEN UNDER STUDY AT THE KAMA RIVER TRUCK PLANT AND AT THE URALLEKTROTYAZHMASH HEAVY MACHINERY PLANT NEAR SVERDLOVSK. HE NOTED THAT THE USA INSTITUTE HAD SENT LECTURERS AND OTHER PERSONNEL TO BOTH OF THESE PROJECTS WHICH COULD BE CONSIDERED AS SMALL EXPERIMENTAL INSTITUTES.

6. SHERSHNEV CONCEDED THAT AT PRESENT THERE IS NO MECHANISM FOR POSSIBLE PARTICIPATION OF US MANAGERIAL PERSONNEL IN THESE PROJECTS, E.G. AN EXCHANGE ARRANGEMENT THROUGH WHICH SOVIET PERSONNEL MIGHT WORK IN US ENTERPRISES. HE SUGGESTED THAT THE SOVIET MINISTRY OF HIGHER EDUCATION WOULD BE THE APPROPRIATE ORGANIZATION TO LIMITED OFFICIAL USE

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PAGE 04 STATE 264143

CONSIDER SUCH EXCHANGES AND NOTED THE OFFICIAL CHANNELS FOR EXCHANGE OF US AND SOVIET SCHOLARS WHICH ALREADY EXIST.

7. DEVELOPMENT OF SPECIAL INDUSTRIES FOR EXPORT PRODUCTION - SHERSHNEV SAID THAT THE POSSIBILITY OF SUCH PLANTS IS STILL UNDER CONSIDERATION IN TOP LEVELS OF SOVIET GOVERNMENT, BUT INDICATED THAT THERE CONTINUES TO BE RESISTANCE FROM CIRCLES WHICH BELIEVE THAT EMPHASIS SHOULD BE PLACED ON AN OVERALL UPGRADING OF PRODUCTION QUALITY. HE BELIEVES THAT ONE IMPORTANT NEW DEVELOPMENT IS THE INCREASED UNDERSTANDING WHICH NOW EXISTS IN BOTH THE TOP GOVERNMENT AGENCIES (GOSPLAN, COUNCIL OF MINISTERS, ETC.) AND ALSO IN THE PARTY THAT EXPORT QUALITY MUST BE IMPROVED. HE SAID THAT THIS AWARENESS IS CONFIRMED FROM

A CAREFUL READING OF KOSYGIN'S SPEECH AT THE TWENTY-FIFTH CONGRESS OF THE CPSU AND ALSO THE TENTH FIVE-YEAR PLAN THESES WHICH WERE PUBLISHED IN DECEMBER 1975.

8. NEW FORMS OF ECONOMIC RELATIONS - SHERSHNEV NOTED GREATLY INCREASED SOVIET INTEREST IN LONG-TERM COMPENSATION ARRANGEMENTS, BUY-BACK AGREEMENTS AND VARIOUS SPECIALIZED COOPERATION AGREEMENTS. IN THE USSR, HE SAID, THESE ARE REGARDED AS IMPORTANT NEW POSSIBILITIES FOR EXPANDING ECONOMIC TIES ABOVE AND BEYOND TRADITIONAL BILATERAL TRADE. HE BELIVES THAT THEY CAN BE INCREASINGLY IMPORTANT IN US-SOVIET ECONOMIC RELATIONS.

9. ALKHIMOV'S NEW JOB - ALTHOUGH HE AVOIDED DIRECT COMMENT ON THE SIGNIFICANCE OF THE RECENT APPOINTMENT OF DEPUTY FOREIGN TRADE MINISTER V. S. ALKHIMOV TO THE

POSITION OF CHAIRMAN OF GOSBANK, SHERSHNEV IMPLIED THAT IT WAS SOMEWHAT UNEXPECTED. HE SAID THAT HE HAD SEEN ALKHIMOV IN MOSCOW JUST A FEW DAYS BEFORE HIS (SHERSHNEV'S) DEPARTURE FOR WASHINGTON. ALKHIMOV HAD MADE NO MENTION OF HIS IMMINENT TRANSFER. HE QUIPPED THAT OVER THE PAST SEVERAL YEARS ALKHIMOV HAS OBTAINED HUGE QUANTITIES OF CREDIT FROM WESTERN COUNTRIES AND NOW HE WILL BE IN LIMITED OFFICIAL USE

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PAGE 05 STATE 264143

THE POSITION OF HAVING TO ASSIST IN ITS REPAYMENT.

10. COMMENT - SHERSHNEV WAS RELAXED AND AFFABLE DURING THE ENTIRE DISCUSSION WHICH EXTENDED FOR NEARLY TWO HOURS, AN HOUR LONGER THAN HAD ORIGINALLY BEEN SCHEDULED. HE MADE NO MENTION OF THE USUAL SOVIET POLEMICS ON SUCH SUBJECTS AS LACK OF EXIM BANK CREDITS AND MFN, AND THE ALLEGATION THAT THE UNITED STATES IS LOSING EXPORT ORDERS TO WESTERN EUROPE AND JAPAN, ALTHOUGH HE HAS PUSHED THIS LINE PUBLICLY IN ARTICLES AND SPEECHES OVER THE PAST YEAR. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN RELATIONS, ECONOMIC DEVELOPMENT, DIPLOMATIC DISCUSSIONS, FOREIGN TRADE, JOINT VENTURES, BUSINESS FIRMS
Control Number: n/a
Copy: SINGLE
Draft Date: 26 OCT 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976STATE264143
Document Source: CORE
Document Unique ID: 00
Drafter: BEWT/OEWPP/AJSMITH/JMB
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760400-0672
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19761016/aaaaanqk.tel
Line Count: 212
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN COME
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 07 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <07 APR 2004 by ElyME>; APPROVED <04 AUG 2004 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COMMENTS OF SOVIET ECONOMIST ON POSSIBLE NEW DEVELOPMENTS IN SOVIET-US ECONOMIC RELATIONS
TAGS: ETRD, UR, YO, RO, US
To: MOSCOW
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006